

MARICOPA COUNTY BOARD OF SUPERVISORS MINUTE BOOK

INFORMAL SESSION

October 20, 2003

The Board of Supervisors of Maricopa County, Arizona convened in Informal Session at 9:00 a.m., October 20, 2003, in the Board of Supervisors' Conference Room, 301 W. Jefferson, Phoenix, Arizona, with the following members present: Fulton Brock, Chairman, District 1; Andy Kunasek, Vice Chairman, District 3; Don Stapley, District 2, Max W. Wilson, District 4, and Mary Rose Wilcox, District 5 (entered late). Also present: Norma Risch, Deputy Clerk of the Board; Shirley Million, Administrative Coordinator; David Smith, County Administrative Officer; and Paul Golab, Deputy County Attorney. Votes of the Members will be recorded as follows: (aye-no-absent-abstain).

PRESENTATION REGARDING THE FINANCIAL STATUS OF THE FY 2003-2004 BUDGET

Presentation regarding the financial status of the FY 2003-2004 budget and risk factors associated with Maricopa County. (C49040068) (ADM1825)

Sandi Wilson, Deputy County Administrator
Chris Bradley, Deputy Budget Director
Tom Manos, Chief Financial Officer
Andrew Huhn, Deputy Finance Director
Elliot Pollack, Elliott D. Pollack & Company, Economic Consultants

Tom Manos reported on the County's General Fund FY 2003-04 results (revenue, expenses and variances) in the areas of property taxes, sales taxes, vehicle license tax, charges, fees, fines and forfeits (Justice Courts & Recorder) and miscellaneous. Total revenues budgeted were \$769,001,004, actual receipts amounted to \$779,667,941, leaving a positive variance of \$10,666,937. The biggest contributors to the \$10.6 million variance came from the "charges, fees, fines and forfeits" entry, which produced \$8.5 million total, \$5.4 million from the Recorder and \$1 plus million from the Justice Courts (monies collected by the Justice Courts are split with the State). Sales Tax revenue has continued to remain relatively static for the past three years. He also commented that the growth in VLT (Vehicle License Tax) revenue has slowed during the past five-years from \$13.8 million in 1999 to a greatly decreased growth of \$4.2 million in 2003.

~ Supervisor Wilcox entered the meeting ~

Sandi Wilson expressed concerns about the decreased sales tax revenue percentages, as they would affect future budgets. She indicated that the County had "survived" the recent financial crisis by "living on the surplus we had built up." That surplus is now gone. She said, "Revenue slows and demand for service increases in down years." She stated that costs for the Criminal Justice System are growing by double digits.

Mr. Manos continued with an explanation of the FYE04 expenditure results, covering Personnel Services, Supplies, Other Services, Intergovernmental Payments, Debt Service Expenditures and Capital Outlay. Total amount budgeted was \$682,664,604 with an actual expenditure of \$579,761,258, leaving a positive variance of \$102,903,346. The biggest provider of savings came through Other Services with a projected budget of \$173,097,869 and an actual expenditure of \$90,350,478, leaving a positive variance of \$82,747,391.

Ms. Wilson remarked that since the near-bankruptcy confronting the County in the mid-1990's OMB's fiscal plan has consistently been very conservative, and that conservatism, along with a strong economy for several of those years, is what produced the build-up of surplus funds that got the County through the economic crunch of the past several years. However, she cautioned that this period of "plenty" that allowed yearly surpluses to accumulate in the General Fund changed in 2001. The declining budget

variances in total General Fund revenue went from \$40.6 million in FY 2000 to \$1.1 million in FY 2002. The Shared Sales Tax was a large contributor but was only one of many causes.

Diane Sikokis interjected that the State of Arizona expects a budgetary shortfall of between \$800 million to \$1.2 billion next year.

Ms. Wilson concluded her remarks by summarizing as follows:

- With slower economy, unanticipated year-end General Fund surpluses are smaller than in the past.
- Revenues are coming in closer to budget, if not under budget, despite adoption of "pessimistic" forecasts.
- Department operating expenditure savings have declined, generally due to tighter budgets.
- Service demands have continued to increase (particularly criminal justice costs).
- State cost shifts, employee health insurance and retirement costs have sapped available revenue increases.
- Employee turnover has slowed, reduced departments' personnel savings.
- State cost shifts will again impact our budget.
- Fund balance increases will continue to be limited.
- Budget stabilization reserves must be maintained.
- Very limited funding availability for "pay-as-you-go" capital improvements.
- Budget guidelines for FY 2004-05 must allow for little or no growth in operating spending by departments.

A discussion ensued on when property taxes may begin to recover and Ms. Wilson remarked, "We are two years away from when any new property taxes will hit the tax rolls."

Supervisor Stapley said that property taxes will continue to drive the market and that Phoenix and Arizona continue to be "a huge bargain when compared with the rest of the West Coast." As people continue to move to the Sunbelt states, he felt that property taxes would remain an important source of revenue.

David Smith reminded the Board that the levy set in the State's constitution for County growth in property tax is getting very close to the \$12 million growth limitation for Maricopa County. He said that if the shared sales tax and vehicle licensing taxes do not rebound and begin to provide a healthy tax revenue, Maricopa County will have big problems in the future.

Elliott Pollack said, "The recession ended over two-years ago but unfortunately the country is experiencing a very slow recovery." He believes that the short recession lasted only from March to November 2001. He said that because it was short, "no pent-up demands" were built up for housing or for automobiles – two products that usually help promote a fast turnaround and quick recovery from a recession. Other contributors to the slow growth are the high level of consumer debt with consumer savings at a low. He felt that most people have gotten used to putting their extra funds into the stock market rather than savings accounts. He expects that next year will be better than this year and the year after will continue the forward progress. He cautioned not to expect any vigorous growth for the next couple of years.

Mr. Pollack spoke on employment, saying that "we are past the bottom and it will continue to pick up." This will primarily come from increased productivity, which will remove the pressure to hire from employers. Business construction too will be slow because production can expand based on their existing facilities and there will be no rush to build new plants. He stated that pressure is felt with regards to equipment and that Y2K was the demarcation point for this. He expects a significant increase in spending on equipment from the business community. He expects interest rates to remain low and with regards to tax cuts, he said, "The federal government is doing everything they can to keep things strong." Mr. Pollack added that the good news is that, "Business has become lean and mean during the past four years."

With regards to the Phoenix metroplex, Mr. Pollack said, "We're doing well and that's surprising because the repercussions from 9-11 affected all the places where Phoenix is strong, i.e., leisure and tourism, employment and manufacturing." He cited the continuous flux in population and said 95,000 people came to the Valley this year and 100,000 will come next year and for every 2.8 people who relocate some kind of existing or new housing unit is needed. He said that the "incredible affordability" of housing in Phoenix and all of Arizona is a huge draw and this will continue to increase as the baby boomers retire. While he expects residential construction to remain stable or increase, he indicated a high vacancy rate in available office and industrial space and the indications are that there will be very little construction in those areas during the next few years.

Discussion ensued on expectations for office and industrial construction and the impact of businesses taking manufacturing jobs to other countries having cheap labor. Mr. Pollack commented that the U.S. has been losing manufacturing jobs for decades. He added, "The semi-conductor and aerospace industries located in Phoenix have kept us going and those jobs requiring skill and training will stay here because the U.S. workers have knowledge and the ability to use it." He believes that mass-production types of jobs will continue to leave the country. Other topics discussed included, the Japanese economy, which he said has many financial and bad debt problems because their banks aren't working well and these signs are being ignored – he added that the social infrastructure in Japan is "something we can't even imagine – the people live very differently from here."

Mr. Pollack predicted that the stock market and home equity will even out and Americans will go back to traditional methods of savings. He does not see any new recession in the foreseeable future, saying, "The corrections have been made."

EXECUTIVE SESSION CALLED

Pursuant to A.R.S. 38-431.03, motion was made by Supervisor Kunasek, seconded by Supervisor Stapley, and unanimously carried (5-0) to recess and reconvene in Executive Session to consider items listed on the Executive Agenda for October 20, 2003, as follows.

BOARD OF SUPERVISORS

LEGAL ADVICE, PENDING OR CONTEMPLATED LITIGATION -- A.R.S. §38-431.03(A)(3) AND (A)(4)

1. **Compromise Cases** – Gregory Amendola, Jay Casten, Juan Germes, Michael Hanin, Xavier Martinez, Brenda Medina, Brandon Pablo, Charles Payne, Socorro Perca, Luis Perea, Ernesto Perez, Roberto Perez, Shellie Snow, Steven Snow, Ian Stenhouse, Eldon Woods.
Barbara Caldwell, Outside Counsel

2. **Write-Off Cases** – Samia Farag, Russell Flynn.
Barbara Caldwell, Outside Counsel

**LEGAL ADVICE; PENDING OR CONTEMPLATED LITIGATION; SETTLEMENT DISCUSSIONS
CONDUCTED IN ORDER TO AVOID OR RESOLVE LITIGATION -- A.R.S. §38-431.03(A)(3) AND
(A)(4)**

3. **Various MIHS-HP Vendors (potential claim vs. Maricopa County)**
Christopher Keller, Chief Counsel, Division of County Counsel
Bruce P. White, Deputy County Attorney, Division of County Counsel
Mark Hillard, CEO, Maricopa Integrated Health System
Pat Walz, CFO, Maricopa Integrated Health System
Todd Ricotta, VP Health Plans, Maricopa Integrated Health System
Lynn Allen, Director of Network Development and Contracting, MIHS Health Plans

FLOOD CONTROL DISTRICT

PENDING OR CONTEMPLATED LITIGATION -- A.R.S. §38-431.03(A)(4)

- F-1. **Flood Control District of Maricopa County v. GTI Capital Holdings, LLC dba Rockland
Materials, et. al., CV 2001-006887, Maricopa County Superior Court**
Jean Rice, Deputy County Attorney, Division of County Counsel
Julie Lemmon, General Counsel
Michael Ellegood, P.E. Chief Engineer
Tim Phillips, P.E.

MEETING ADJOURNED

There being no further business to come before the Board, the meeting was adjourned.

Fulton Brock, Chairman of the Board

ATTEST:

Norma Risch, Deputy Clerk of the Board